voluntary negotiated agreements. Conversely, legislation that restricts fair trade will ultimately cause the foreign countries to restrict importation of American goods."

The trade issue also comes up in over-the-border assembly or fabrication operations in Mexico and, perhaps, Canada. With particular reference to autos, Don Ephlin comments:

"Over-the-border fabrication and assembly operations have in some cases contributed to job preservation this side of the border as they have allowed *part* of the manufacturing process to remain here rather than to be shipped abroad wholesale.

"In other instances, positive employment effects of over-the-border fabrication among U.S. workers have derived from the need to import U.S.-made parts to supply assembly operations in Mexico or elsewhere. That type of positive effect is often transitory, however. As companies become more vertically integrated within those countries, the export of either finished products or parts to the United States becomes detrimental to U.S. employment.

"The auto industry is a case in point. The U.S. auto companies have set up operations in Mexico with the intention of complying with the Mexico Auto Decree, which in the long run attempts to assure a trade surplus in its auto sector. Up until last year, the trade surplus had been extremely favorable to the United States; a booming economy had been fueling Mexican demand for cars, and Mexico plants set up for exports had not yet come on stream. In 1982, the situation has changed drastically. The Mexican economy has collapsed and exports to the United States, mainly engines, are increasing. Our trade surplus will shrink at best—and may turn into a deficit, with more to come in the future. Clearly this matter needs our government's attention, to dissuade the Mexican government from attempting to develop that country's auto industry at the expense of U.S. workers' jobs.

"This example also underscores that nothing better serves the purpose of employment gains or stability in the United States than a prosperous Mexican economy—a concept that can be extended to all of Latin America. More prosperity across the border would not only imply higher U.S. exports there, but also fewer incentives for illegal immigration, in both cases bolstering employment of American workers."

Immigration Policy

Just as protectionism rises during recession, there is increasing interest in containing the labor-market entry of immigrants. Legislation is now being considered that would require employers to verify that a prospective employee is a citizen or a documented immigrant; it contains sanctions to prevent the employment of undocumented aliens. Some employer groups oppose the legislation, and its passage at this time is in doubt. Mr. Winpisinger and Mr. Ephlin are in favor of such restrictions. In the former's view:

"Since a bill to penalize employers of illegal aliens has passed the Senate and is moving through committee in the House, it would seem the prospects for such legislation this year are excellent. And, in my opinion, it is long overdue. No other country makes it so easy for illegal aliens to crowd into its labor force. If this means worker identification papers, so be it. In other democracies, including the EEC and Scandinavian countries, requiring working papers has not reduced the freedom of the native work force in any meaningful way.

"The effect of illegal immigrants on U.S. labor markets is to depress wages, take jobs that could be filled by unemployed citizens, and subvert standards of health and safety on the job. Since illegal aliens are afraid to complain, they are more easily exploited by unscrupulous employers who profit by perpetuating sweatshop wages and working conditions.

And from Mr. Ephlin:

"Much of the current population of undocumented aliens is working at jobs that are shunned by the U.S. work force, because of the nature of those jobs, the rate of pay, and the lack of benefits. However, as American citizens or legal immigrants increasingly fall prey to unemployment and the lack of government assistance, they are in all likelihood becoming more willing to bid for jobs that were unattractive some time back. The resulting competition can only be detrimental to already substandard wage rates and working conditions.

"In addition, the dismal state of affairs in many Latin American countries has stimulated illegal emigration to the United States of people with more skills than the traditional emigrant. These undocumented aliens are competing with fully documented workers in 'primary' labor markets, again with depressing effects on wage rates and working conditions. Current conditions in Mexico are a case in point. Not only is that country's severe recession an incentive to cross over to the United States in search of work, but the devaluation of the Mexican peso makes any dollar earned here much more valuable back home than it was just a few months ago. This development is bound to aggravate already dire U.S. labor-market conditions, particularly in the Southwest."

Daniel Mitchell offered some reasoning that explains why those who favor import restriction might also favor immigration restriction:

"In international trade theory, there is symmetry between goods movements and factor movements. Simply put, import and export goods implicitly contain the labor it took to produce them. When we import products, we import the labor it took to produce those products. When we export products, we export the labor contained in them. Thus, trade in goods is more or less interchangeable with movement of labor across international borders. You can import people or you can import the goods they make."

He calculated the cost of an identification system for "legal" immigrants:

> "About 120 million people were in the labor force at some point during 1981. If all of these people were issued counterfeit-proof ID cards, and if each card cost $1 to produce, the production costs alone would be $120 million. To this would have to be added distribution costs and systems to verify the identity and status of individuals applying for cards. Use of identification other than specially produced ID cards would be of limited effectiveness because of the possibility of false papers and improperly obtained identification.

Mr. Neylan strongly opposes immigration restrictions—which fits in with his overall free-trade philosophy:

> "The depth of our present economic slump has unquestionably revived the movement to readdress immigration policy, but I think that the Congress will not support it. The notion of employee identification is repugnant to our society and I assume that President Reagan (who came to office on a wave of free-market rhetoric) would use his office to stop the legislation, by veto if necessary. The years spent in legislating discrimination out of existence would, in the main, be wasted, to say nothing of the bureaucratic structure needed to support the program. To burden the legitimate employer with the prospect of fines or other sanctions if his employee proves to be an illegal is more than he should bear. I am not aware of any foolproof identification system, even if I can get myself past the revulsion the notion induces. If I were a first-generation citizen of southern European, Slavic or Hispanic origin, I would be genuinely and legitimately concerned.
>
> "I don't question that the existence of illegal aliens in U.S. labor markets acts to depress wages in the segments of the market where illegals are employed. It is simply a question of supply and demand. At the same time, I reject the notion that they occupy, in any meaningful way, jobs that would otherwise be taken by unemployed Americans. As illegals enter the mainstream after a period of residence, they become upwardly mobile. They have aspirations just like everyone else, and may even be more intent on performance than the native born. In this context those with skills, or those who have developed skills here make a positive contribution to our society. Those who come have the same drives that the Pilgrims had: They are looking for opportunity in the last free society in the world. The downside of restrictive legislation is a net loss of our personal freedom and the unfavorable reaction to be anticipated from our neighboring republics."

And Again, Unemployment Is Now The Greatest Concern

The Conference Board's Labor Outlook panel kept returning to the volume of unemployment as the issue of greatest importance in 1983. Even the most optimistic member, David Lewin, considered the unemployment level critical:

> "Some of the jobs lost in manufacturing, construction and mining will be regained in a recovery from the recession—as is typical in all economic recoveries. However, the situation in manufacturing is not one of decline due solely to recession, but is also the result of increased competition, especially from abroad. Foreign producers of autos, steel and rubber products are more efficient than U.S. producers and have gained market footholds that will not be easily—if at all—dislodged. This fact, together with the increased substitution of capital (e.g., electronic assemblers and industrial robots) for labor in many manufacturing industries, means that some—and perhaps a large part—of the recent job losses will not be recovered.
>
> "What will happen, then, to the 11 million unemployed? How readily will those among the unemployed whose skills are obsolete acquire the skills and training to fill jobs in growth sectors such as trade, finance, insurance and real estate, services and communications? In the longer term, such skill acquisition is likely to take place, especially if product demands are strong. However, the unemployed will bear a heavy burden in the interim. It is probably also true that the levels of frictional and structural unemployment have increased over time—types of unemployment that are not amenable to solution via economic expansion alone."

The Conference Board's Labor Outlook panel has been an accurate predictor of change, and so its sharp concern about unemployment levels indicates another possible shift. The group appears to feel that this is not a "normal" cyclical phenomenon that will evaporate in a year. For this reason, government interventions were favorably discussed. Thus it seems that a deep recession that cuts down price and wage inflation may bring in its wake widespread demand for "active" government intervention in the labor market.

1/5/83

R4105-29.18A

Research Bulletin

U.S. Regional Economies

An Updated View of 1982-1983

The Conference Board

number 126

BEST AVAILABLE COPY

© 1982 The Conference Board, Inc.

THE CONFERENCE BOARD, INC.
845 Third Avenue, New York, N.Y. 10022
THE CONFERENCE BOARD OF CANADA
25 McArthur Road, Ottawa, Ontario, K1L-6R3, Canada
THE CONFERENCE BOARD, INC.
Avenue Louise, 207 Bte 5, B-1050 Brussels, Belgium

The U.S. economy has basically been in a slump for three years. There was a recovery from mid-1980 to mid-1981, but it was short and weak; many economic indicators failed to regain their previous highs before starting down again. There has been some slight upturn but, as 1982 ends, the rate of economic activity in real terms—that is, omitting inflation—is just about where it was three years ago.

The Spring, 1982, meeting of The Conference Board's Regional Economic Forum was, as noted at the time, "not cheerful." The forum looked for only a modest rise in activity in the second half of 1982 and, at best, subdued growth in 1983 and perhaps beyond. The group's expectations were not spelled out in detail, but it is very probable that the actual course of events in 1982 has run weaker than those expectations.

In the Spring, the forum noted that no region is recession-proof. In a fast-growth region, a national recession manifests itself as a slowdown of growth, not an outright drop in activity, but that slowdown is a major deviation from "normal." The current recession has lasted so long that it has had time to become unusually pervasive, and this is reflected in the updated regional assessments. All regions are feeling it.

The Spring meeting of the forum took particular note of two industries—agriculture and oil—whose weakness was exacerbating the effects of the general slump. The updated reports reiterate this view, noting serious impacts in the Breadbasket, Southeast, Mountains and Southwest. The only industry generally mentioned as showing real signs of recovery in 1982 is residential construction, whose rebound was set off by the decline in interest rates. The forum participants consider the decline in rates to be the key to a broader economic recovery in 1983, and it seems to be implicit in most of the reports that further rate declines are expected. In general, the reports are very cautious about the growth outlook for 1983; the tone seems to be one of hope that the consensus expectation of some growth proves correct, but there is no firm conviction that it will.

Lora S. Collins
Director-Business Conditions Analysis

New England

Frederick Breimyer
First National Bank of Boston

NEW ENGLAND

Prospects for the New England economy have worsened in recent months in keeping with the deterioration of the national outlook. The 1981-1982 recession is now likely to spill over into, and perhaps well into, 1983. The unusual character of this recession has made recovery elusive. The recession was not brought on by the typical dynamics of the business cycle, but by exceptional national economic policies and structural adjustments. Put differently, this recession has been not so much a cycle as a siege, and consumers and businesses have responded by developing a siege mentality.

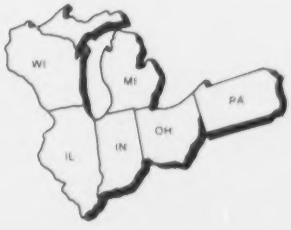
The economic indicators show that New England has been less adversely affected than the nation as a whole. Employment has slipped in each of the six New England states over the past year, bringing employment levels as of the third quarter to 1.7 percent below those of a year earlier. For the United States as a whole, the decline was 2.2 percent. Moreover, New England was substantially better off going into the 1981-1982 recession than other regions and retains that earlier advantage. As measured by recent statistics, the unemployment rate in New England averages more than 2 percentage points below the national rate. Manufacturing jobs have been the most deeply affected by the recession, dropping about 7 percent in the region. The employment decline in high-technology manufacturing has been at least as severe as that in nondurable goods, because of the large and continuing cutbacks in capital spending. Service employment continues to expand, but at a much reduced pace.

Even as the recession bites more deeply, many New Englanders are attempting to hold on to earlier optimism. That optimism has been warranted in many ways. New England has experienced a transformation in its manufacturing base, replacing jobs in economically mature industries that were low paying and increasingly uncompetitive with better jobs in high-technology manufacturing and in service industries. The challenge of revitalization now faces other regions in the United States, which earlier had regarded such structural transformations as peculiar to New England. Also, New England is now less disadvantaged by its heavy dependence upon foreign oil: Petroleum prices worldwide are stable or falling, but natural gas users are experiencing rapidly rising prices as the result of deregulation. Indeed, "energy dependence" has taken on a new meaning as petroleum-producing states find their economies vulnerable to the oil glut. More generally, the extractive and agricultural industries of the nation are suffering more than at any time during the past 50 years. By comparison, New England is relatively well off, well diversified, and capable of growth in anything approaching a benign national economic environment.

Even if the United States were to experience little significant economic growth during the 1980's, the impact on New England would likely be less adverse than elsewhere. New Englanders are accustomed to slow growth, and the region has not leveraged itself for future growth, although the boom in office construction may be an exception. Indigenous population growth is small, helping to keep unemployment down. Moreover, the high-tech industries are inherently entrepreneurial, directed toward developing new products with enhanced efficiencies rather than toward large-scale production. No region can be invulnerable if the national economy falls into a persistent slump, but New Englanders, to a large degree, have covered their economic bets.

"The Industrial Heartland"

Elizabeth A. Bossong
United States Steel Corporation



INDUSTRIAL HEARTLAND

The continuation of overly restrictive monetary policy into the second half of 1982 has foreclosed any hope of national recovery during 1982, and has plunged the Industrial Heartland deeper into the lowest operating levels and highest jobless rates since the 1930's. Yet, while seemingly terminally ill, the heart is still beating and some of the wakes being held for smokestack America may be premature. However, recovery is dependent on *sustained* relaxation of monetary policy and an adequate supply of credit.

It would be difficult to overstate the damage done to basic U.S. industries and workers by the volatile and

unprecedentedly high interest rates that have characterized the years since October, 1979, when the Federal Reserve changed its operating procedures to emphasize targeting of the aggregates. This drove up the price of money as money supply was constricted. In addition to the direct effect on interest-rate-sensitive sectors of the economy, high interest rates triggered an upward explosion in the international value of the dollar. The resulting overvaluation of the dollar, coupled with the weakness of some other currencies, especially the yen, has drastically but artificially reduced the competitiveness of U.S. products. Worldwide recession, subsidized industries abroad, and predatory penetration of the large and relatively open U.S. market, combined with the substantially overvalued dollar, have resulted in a sharp slide in our balance of trade. This accounted for more than 40 percent of the decline in GNP between the third quarters of 1981 and 1982.

During 1982, industry operating rates have fallen to lows not experienced since the 1930's. The jobless rate in centers of manufacturing dwarfs the national average (although the latter is climbing as the depression in the Industrial Heartland has spread outward to sectors previously relatively unscathed.) The Heartland, with its high proportion of cyclically vulnerable industries, has been savaged.

The steel industry's operating rate will average only about 40 percent of capacity in the second half of 1982, and output for the year will be off one-third from an already sluggish 1981 total. Meanwhile, import penetration is hitting a record 22 percent of the domestic market. Auto production, contrary to all expectations, will not only fail to surpass the depressed 1980-1981 levels but will sink to about 5.1 million units. Freight-car deliveries in 1982 will be 60 percent below 1981, and barge building will be off 75 percent. The output of construction, industrial and electrical machinery, reflecting the impact of falling investment spending and a collapsing trade balance, will be off about 20 percent in 1982, and only a strong economic revival can prevent a further decline in 1983. The continuing weakness in contract awards nationally and in the Heartland indicates that heavy construction activity will decline.

Construction Contracts[1]—Industrial Heartland and United States

	1979	1980	1981	Percent change 1979 to 1981	Nine months 1981	Nine months 1982	Percent change 1981 to 1982
	Nonresidential Buildings—Millions of square feet						
US	1,377	1,200	1,166	−15	903	722	−20
IH	320	257	206	−36	165	116	−30
IH as % of US	23	21	18		18	16	
	Residential Buildings—Billions of Dollars						
US	71.8	60.3	56.2	−22	45.1	38.6	−14
IH	14.5	9.9	8.7	−40	6.9	5.6	− 9
IH as % of US	20	16	16		15	15	

[1]F.W. Dodge data. Industrial Heartland represented by F.W. Dodge Regions 4 and 5.

On the assumption that Federal Reserve monetary policy will *not* accommodate all of the credit demands of the private sector as well as the Treasury, and that the Fed will continue its effort to curb inflation through restrained monetary growth, real interest rates will remain relatively high in 1983. The economy will grow by only about 2 percent. In such a slow-growth economy there is no room for growth in consumer durables; there is no incentive (or cash) for increased investment in plant and equipment; there is no demand for transportation equipment; and there is no growth in steel consumption.

To state the obvious, basic industry and the Industrial Heartland need strong cyclical recovery, not the 2, 3 or even 4 percent real growth now widely assumed, and in some circles favored, for next year. The stagnation in much of smokestack America since the early 1970's and during the present industrial depression is far more the consequence of suppressed economic activity than of basic structural change in supply and demand forces. If the economy comes back strongly, at a growth rate of 6 percent or so for two or three years, the recovery in industrial activity and in the Heartland will be dramatic. Anything much less will weaken us economically, politically, socially and militarily.

The Mid-Atlantic

Thomas J. Spitznas
Chemical Bank

Lasting much longer than expected, the nationwide 1981-1982 recession finally arrived in the Mid-Atlantic region. Through the first six months of the national downturn, Mid-Atlantic region's industry mix—heavy in the less cyclical service and finance industries—helped, at least partially, to immunize the region from the nation's ills. However, with the recession prolonged well beyond one year, there was greater opportunity for weaknesses in the cyclical industries to spread to services and finance

and thus have a growing impact on New York and New Jersey. Even so, during the current period of economic malaise—measured either from July, 1981, or from January, 1980—the Mid-Atlantic region still continues to outperform the country as a whole by a wide margin.

Within the region, New York State appears to be doing slightly better than New Jersey. Private employment is holding up somewhat better in New York (see table); however, the November unemployment rate was 9.9 percent for both states (compared with 10.8 percent nationally). The unemployment rate in the Mid-Atlantic region has remained around one percentage point below the national rate for most of the current recession.

Within New York State, the New York City region is clearly outperforming the rest of the state—just the opposite of the situation during recessions in the 1970's.[1] Private payroll employment in the New York City region still has not fallen below the level at the most recent national business-cycle peak (July, 1981). Nevertheless, the office construction boom in New York City is over and activity in the City's mainstay service sector is now sluggish at best.

Throughout the Mid-Atlantic region, the recession's impact on the manufacturing sector does not appear to be as severe as at the national level. This is true despite the fact that much of the region's manufacturing industry is antiquated. One likely explanation is that the region's manufacturing industry mix is tilted away from the heavy, basic industries that are catching the brunt of the recession. Another possible reason is that a considerable share of manufacturing employment in the New York City area is in company headquarters.

[1]New York City and Nassau, Suffolk, Westchester and Rockland counties.

Percent Change in Private Payroll Employment (seasonally adjusted)

	July 1981 to September 1982	January 1980 to September 1982
United States.....	—2.6%	—1.6%
Mid-Atlantic.....	—1.0	0.4
New York	—0.9	0.6
New Jersey	—1.5	—0.2

The outlook for the Mid-Atlantic economy in 1983 is certainly less optimistic now than was perceived last Spring. However, this is mostly due to the prolonged national recession and not to any new structural problems in the regional economy. Therefore, the anticipated recovery in the national economy, which should begin in a meaningful way in 1983, will lead to an economic revival in the region. Because the national recovery will be slow, economic activity in the Mid-Atlantic region will rebound more slowly than during the brief recovery period following the 1980 recession. Beyond 1983, the outlook is more promising all around.

The Southeast

Gene D. Sullivan
Federal Reserve Bank of Atlanta

The southeastern economy was expected to be showing definite signs of recovery by the second half of 1982. Tax cuts and increased social security payments were projected to combine with lower interest rates to produce a bulge in consumer expenditures that would spark the region's weakest sectors—housing and manufacturing—to new growth.

As the fourth quarter unfolds, the spending bulge has not yet appeared. Interest rates have come down, but the drop came much later in the year than was originally anticipated. Instead of rushing out to spend their increased income, consumers have behaved cautiously by saving their extra dollars. They have apparently been waiting for signs that the recession will grow no worse—and perhaps looking for evidence that the economy is improving—before they begin to increase their purchases. Consumers have been unwilling to obligate themselves for postponable purchases as long as there is the risk that they might yet lose their jobs.

SOUTHEAST

The Southeast region's unemployment rate reached 9.9 pecent in the Fall, matching the peak of the 1973-1975 recession. The major weaknesses are found in states with relatively large manufacturing, mining and construction sectors. Alabama, the state most adversely affected, had a jobless rate of 14.7 percent. Thanks to heavy concentration in service industries, Georgia and Florida are faring unusually well by comparison, with jobless rates averaging 7.7 and 7.5 percent, respectively. But even in these states, important industries have experienced severe recession. West Virginia, Mississippi, South Carolina,

and Tennessee have been particularly hard hit; and the petroleum slowdown has pulled down Louisiana's economy, in contrast to the last recession when brisk activity in oil helped that area to escape the slump. The glut in petroleum supplies, accompanied by the global recession, is likely to keep the oil business in the doldrums for an extended period. The coal industry, riding on the crest of the earlier oil boom and national emphasis on energy independence, now also finds less eagerness among customers who had been scrambling to switch from oil to coal as an energy source. However coal exports seem to be maintaining a growth momentum.

On the whole, employment was still declining in Southeast during the Fall. Service employment has continued to grow throughout the recession and public-sector employment, although still declining, has been falling less rapidly. However, employment in trade, finance and transportation, as well as in manufacturing and construction, was either still trending down in the Fall or showing little evidence of an upturn.

The agricultural sector is experiencing depressed incomes and large net losses primarily attributable to bumper crops nationwide, low prices, and high costs. The major exceptions in the Southeast are producers of tobacco, sugarcane and milk—who have fared relatively well in 1982 because of rigid price-support programs—and hog farmers, who have reaped the benefit of high prices from a large cutback in production. But the majority of other farmers have marketed 1982 output at prices well below year-earlier levels. As a consequence, the Southeast is plagued with loan delinquencies and increased failures of highly leveraged operations; and manufacturers and merchants of farm equipment and supplies have also suffered

The tourist industry, too, has suffered from reduced travel, and especially from a slowdown in foreign visitors. Conventions have attracted fewer delegates, and hotel-motel occupancy rates have been depressed. The Knoxville World's Fair provided a pickup for the east Tennessee area, but few benefits from that event accrued to other areas of the Southeast.

International trade through customs districts of the region is off substantially. Losses from a year ago in export values typically ranged from 5 to 7.5 percent although the Tampa port sustained a 19 percent drop, reflecting the severe downturn in the phosphate industry. Import volume typically declined even more, with the Mobile port's reduction pegged at 38 percent. Special products being developed for export markets, along with increased diversification of port facilities, should contribute to improvement in the region's trade volume in 1983.

Construction was the lone sector to exhibit signs of improvement as the southeastern economy entered the fourth quarter of 1982. Residential building permits began to increase with the decline in mortgage interest rates at midyear. Although the upturn occurred at an unusually low level and activity thus far remains far below normal, the momentum of recovery appeared finally to be gathering strength during the last quarter of 1982. With further declines in interest rates, the construction industry should provide additional strength by the Spring. Consumers are also likely to have begun spending more freely by then. In response to this growing demand, manufacturers should begin recalling workers. That will be particularly good news for the region's concentrations of building materials and automotive-related manufacturing industries. These improvements, combined with the anticipated growth in tourism related to Walt Disney world's new EPCOT attraction, should move the southeastern economy to recovery in earnest by the second quarter of 1983.

"America's Breadbasket"

Marvin Duncan[2]
Federal Reserve Bank of Kansas City

Agriculture in the breadbasket continues to be burdened by large supplies of major crops and by crop prices at or below break-even levels, although easing of inflationary pressures is slowing the rise in production costs. Net farm income for 1982 is significantly higher than had been forecast earlier in the year, but still well below the levels of recent years. Low farm income and reduced cash flow have adversely affected the debt repayment capacity of many farmers. Nonetheless, with recovery in prospect for 1983—in the general economy and for farmers, as well—some modest improvement in farm prices and income is expected next year.

AMERICA'S BREADBASKET

For the second year in a row, U.S. farmers harvested bumper crops. Wheat production in 1982 was a record

[2]The views expressed are solely those of the author and do not necessarily represent the views of the Federal Reserve Bank of Kansas City or of the Federal Reserve System.

2.8 billion bushels. Corn production of 8.3 billion bushels topped the 1981 record output. Soybean production reached 2.3 billion bushels, a new record and 15 percent above 1981 output. Cotton production, however, totaled 11.4 million bales, off nearly 27 percent from 1981.

Efforts to reduce food and feed grain output in the United States in 1982 were generally unsuccessful. While about 48 percent of the wheat acreage and 29 percent of the corn acreage were in compliance with the Agriculture Department's acreage set-aside program, excellent growing weather offset the effect of fewer acres. Cotton producers, with a larger proportion of compliance in the acreage set-aside program (estimated at about 75 percent) and serious weather problems, did reduce output significantly. Only those farmers in compliance with the 1982 farm program for the crops they grow will receive target price protection and be eligible for Commodity Credit Corporation loans on those crops.

Carry-over stocks at the end of the 1982-1983 marketing year will be at very burdensome levels for most major crops and for cotton. These carry-over supplies are currently expected to equal 55 percent of total annual utilization for wheat, 45 percent for corn, 20 percent for soybeans, and 57 percent for cotton.

Total red meat and poultry production continues to be significantly below year-ago levels. Hog production in the fourth quarter of 1982 may be off as much as 18 percent from a year earlier, while beef production may about equal the year-ago output. Hog production has been very profitable for farmers during 1982. Reduced beef production has resulted in relatively profitable prices for cattle feeders for much of 1982. Ranchers have also enjoyed some price improvement for feeder cattle, although prices still appear to be below the full cost of production.

Net farm income for 1982 is expected to reach $19 billion, significantly above forecasts earlier in the year but 24 percent below the 1981 figure. The pressures of low farm income and the high cost of carrying debt have resulted in declining farm real-estate values across the nation. In the Tenth Federal Reserve District, cropland values are off 15 to 17 percent from the market high of about 18 months ago. Thus, farmers are experiencing the third year in a row of depressed farm income and declining real farm-sector equity. As financial pressures have intensified for farmers, exits from farming and partial liquidations of farm businesses have apparently increased substantially during 1982. Such situations still represent a small proportion of U.S. farmers, however.

Farm income prospects for 1983 are buoyed somewhat by expectations of improved overall economic performance in the United States and in a number of our industrial-country trading partners. As a result, some price improvement appears likely for cattle and hogs and, perhaps, for major grain crops as well. With easing in the rise of production costs also likely, farm income should post a modest improvement in 1983. That, in turn, will begin to ease the financial pressures that are currently burdening the farm sector.

The Southwest

James A. Byrd
InterFirst Corporation

SOUTHWEST

The Southwest regional economy, in addition to feeling some negative effects from the national recession, has in recent months been affected by the bursting of an oil-drilling "bubble" this year. As a result, unemployment rates in Texas and Oklahoma have been increasing further.

The "downers" in the region throughout 1982 have continued to be the sectors most affected by the national recession—residential construction, domestic-model auto sales, and sales of other big-ticket consumer appliances. However, the downturns in these measures in the region have been only about half as sharp as those in the comparable national magnitudes. New housing activity began to show significant improvement in Texas in the Fall, especially apartment-building activity.

Oil and gas drilling activity in Texas and Oklahoma have been hit hard by severe cutbacks in the number of drilling rigs in operation and in the related drilling service and supply sectors. About 40 percent of the drilling rigs that were active last year have been stacked this year. Hundreds of drilling crews have been terminated. It is interesting to note, however, that footage drilled this year has been about the same as last year, which suggests that major drillers are drilling deeper wells.

Unemployment rates in all four states of the Southwest region increased this year (see table). Oklahoma's rate moved upward from a "full employment" level. Louisiana's rate about matched the national average, while Texas, Oklahoma and Arkansas remained below it.

Unemployment Rates
(not seasonally adjusted)

	September 1981	September 1982
Texas	5.4%	8.0%
Oklahoma	3.4	5.9
Arkansas	7.9	9.1
Louisiana	7.9	10.6

Agriculture and related agribusiness activities have continued to post the weakest performances in the region this year. Oil- and gas-drilling activity joined the "weak" list during the year. Currently, there is increasing concern that office-building construction in major metropolitan areas of the region may have gotten ahead of itself in its own private cycle.

The consensus outlook for the nation's economy next year now calls for a slow-paced recovery at about half the speed of the average recovery since World War II. The Southwest region's outlook is a bit better than that, with the price-increase outlook about the same as for the nation.

The Mountains

Tucker Hart Adams
United Banks of Colorado

The impact of falling oil prices, which was just beginning to be felt when the Forum met in April, 1982, has had an even more dramatic impact on the Mountain region's economy than we anticipated. It was almost as though it had not occurred to the energy-producing states that oil prices could go down as well as up. By late 1982, 40 percent of the region's oil rigs were stacked; oil shale had boarded up its windows and gone home (with the exception of the Union Oil project in Colorado); expansion plans had been put on hold; and a massive shakeout of highly leveraged, poorly managed firms was under way.

The region's overreaction to declining oil prices showed up in a higher then expected unemployment rate in 1982, and less growth than we had anticipated in retail sales. The 92 percent of the region's labor force which still has jobs continues to be in a good position to lead the spending spree that will trigger economic recovery. Nevertheless, fear of job loss as the region's unemployment rate moved above 8 percent held retail sales expansion to 7 percent in 1982, below the local inflation rate. Personal income growth for the year has been in line with our earlier forecast of a roughly 9½ percent rise.

Inflation has improved more dramatically than seemed possible six months ago and seems likely to remain subdued in 1983. As a result, we have lowered our projection of nominal income growth in 1983 by two percentage points, although our estimate of real growth remains unchanged. The same holds true for the retail trade forecast. The consumer spending which did not materialize in 1982 is expected to occur in 1983.

National attention has focused on the overbuilt office market in metropolitan Denver, and nonresidential construction has indeed slowed sharply. The drop could have been even more substantial if expansion of industrial space had not absorbed some of the slack. Nonresidential construction will continue to be depressed

MOUNTAIN STATES

in 1983 as Denver begins the three-and-one-half year process of absorbing the new space coming on line by the end of 1982. A housing recovery in 1983 will be enhanced by a building surge in Arizona, with starts up 32 percent on average. The recovery in residential construction is occurring later than we anticipated six months ago, with most of it being pushed into 1983.

Once oil prices stabilize and the "oil patch" becomes convinced that the price decline is over, a leaner, healthier industry will resume expansion at a slower, more sustainable pace. We do not expect this to occur before mid-1983 and it could be derailed either by a

Mountain Region Economic Indicators

		Estimate	*Forecast*	*Percent Change*	
	1981	*1982*	*1983*	*1982*	*1983*
Personal income (billion $)	116.0	126.4	139.0	9.0	10.0
Retail trade (billion $)	56.9	60.9	67.3	7.0	10.6
Unemployment rate (%)	6.3	8.3	7.5	—	—
Housing (thousand units)	102.2	92.0	121.4	—10.0	32.0
Nonresidential building (billion $)	4.6	4.2	4.4	— 8.9	5.0

supply disruption, which could send prices skyrocketing and reignite the boom, or by cutthroat price competition as small oil-exporting nations increase production to maintain revenues in the face of price declines. This uncertainty, more than the level of oil prices, is what is constraining the Mountain region's growth outlook. The rest of the energy industry will be heavily influenced by the movement in oil prices. Oil shale production is unlikely to expand until the next oil price surge.

Renewed growth in the high-technology industries will provide impetus to the economies of Colorado and Arizona. Tourism will pick up as the national recovery accelerates. Trade and services will continue to expand, gaining momentum as the recovery spreads. Overall, 1983 is shaping up as a good year in the Mountain region, although not a great year. Recovery in areas heavily dependent on copper, molybdenum and steel is not on the immediate horizon but, fortunately, these industries provide a minor portion of the regions total economic base.

The Pacific

Joseph A. Wahed
Wells Fargo Bank, N.A.

Early in 1982, the following statement was made regarding the economy of the Pacific states:

> "The immediate prospects remain poor. The hoped-for recovery later in 1982 may still take place but it will be weak and spotty. This is largely due to the record level of interest rates and to the highly uncertain financial environment nationally. At best, a bona fide recovery is doubtful before 1983."

As the year drew to a close it was clear that economic events pretty much supported that statement. Sluggish sales and disappointing new investment continued to characterize the Pacific states' key industries such as forest products, agribusiness, tourism and aircraft. Weak export markets and an overvalued dollar hurt the region's important foreign trade-related businesses. As expected, only the defense sector continued to buck the trend. In fact, were it not for this, the number of unemployed in the region would have been much higher. During the fourth quarter of 1982, unemployment continued to rise and reached an estimated 1.8 million.

Still, there are some hopeful signs on the horizon. Early indicators show that the economy is in the process of turning round, albeit at a very slow pace. The first evidence is in the real estate market. Builders and brokers in October and November were reporting an improved flow of traffic in housing tracts in California, and sales of single-family homes edged up. Housing permits for future construction in the third quarter of the year totaled nearly 36,000—up 72 percent from nearly 21,000 in the first quarter. Developers are back developing and mortgage lenders are back lending. Interest rates have fallen substantially, especially for FHA- and VA-insured loans. The mood has definitely changed in the housing market but no one is expecting a boom in 1983. This improvement in the housing market, here and elsewhere, will help the region's still hard-hit forest products industry although industry leaders are not anticipating any major pickup in orders and output until 1984.

Some scattered strength is also discernible in the Pacific states' consumer markets, but the evidence is still too spotty to mark a trend. In November, department stores reported rising sales, while auto dealers had one of their best months in well over a year. A recovery in consumer spending is a sine qua non for a continued business pickup in 1983 and this recent strength is definitely encouraging. Lower interest rates for auto loans and an improved financial position of consumers helped to spark this turnaround—outweighing (so far at least) the very negative mood arising out of job insecurity and high unemployment. News of plant closings (in autos, food processing, steel, cement, etc.) and large layoffs have taken their toll on consumer psychology, but the worst is probably nearly over. Tourism has held up a little better than expected in Oregon and Hawaii but many resorts are still reporting low hotel occupancy rates. Other industries—in the Pacific states—

agribusiness, nondefense manufacturing, and nonresidential construction—were still hurting in late 1982 with hardly any sign of improvement.

To sum up: The year 1983 is shaping up to be a slightly better one for business than 1982. Interest rates are widely expected to fall another 150 to 200 basis points while inflation will hover around the 5 to 6 percent range. The Pacific states will also continue to benefit from rising defense procurement and R&D in California and Washington, and from an improvement in housing and consumer markets. As a result, many corporations will benefit from rising profit margins and improved efficiency as their sales increase and their costs stabilize.

Many challenges remain. These include financial strains arising out of large deficits (nationally and locally). In addition, a high level of unemployment will plague families and restrain retail spending. Because of these two forces, and their repercussions on other sectors of the economy, the recovery in 1983 will be slow and hesitant and not fully satisfactory.